

Flash Note

Monday, 18 April 2016

Cements

FCCL: Massive Improvement in Margins owing to Cost Efficiencies

- Profitability hopped up by a remarkable +59%YoY to PKR 1.6bn (EPS: PKR 1.13) in 3QFY16, taking 9MFY16 earnings to PKR 4.3bn (EPS PKR 3.14), depicting an increase of +64%YoY.
- Revenue grew up by +18%YoY to PKR 5.2bn in 3QFY16, taking 9MFY16 revenue to PKR 15bn, a growth of +13%YoY.
- Gross Margin jumped up by massive +1,098bpYoY in 3QFY16, which in our view is due to a) higher net retention prices as revenue mix has tilted more towards local sales, b) 12MW WHR plant operational for the 9MFY16, c) reducing energy cost, and d) lower coal and FO prices.
- Company has converted 48.7mn preferred shares into same amount of ordinary shares in Feb-16.

Recommendation

The scrip is currently trading at FY16E P/E of 11x and with our Dec-16 TP of PKR 56/share, the stock offers upside of +27% and we maintain our **'Buy'** call on the scrip.

Exhibit: Financial Highlights

PKR mn	3QFY16	3QFY15	YoY	9MFY16	9MFY15	YoY
Revenue	5,245	4,427	18%	15,195	13,418	13%
Gross Profit	2,503	1,626	54%	7,080	4,794	48%
Selling and Admin	126	98	29%	371	305	22%
Other Expenses	162	96	69%	447	278	61%
Finance Cost	95	181	-48%	415	583	-29%
PBT	2,200	1,302	69%	6,061	3,769	61%
Tax	639	320	100%	1,724	1,120	54%
Net profit	1,561	982	59%	4,337	2,649	64%
EPS	1.13	0.71		3.14	1.92	
DPS	-	-		1.75	1.00	
Key Ratios						
Gross Margin	48%	37%		47%	36%	
Net Margin	30%	22%		29%	20%	
Effective Tax Rate	29%	25%		28%	30%	

Source: IGI Research, Company Financials

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Analyst Certification

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Recommendation	Rating System
Buy	If return on aforementioned security(ies) is more than 10%, from its last closing price(s)
Hold	If return on aforementioned security(ies) is in between -10% and 10%, from its last closing price(s)
Sell	If return on aforementioned security(ies) is more than -10%, from its last closing price(s)

Valuation Methodology

The analyst[^] has used following valuation methodology to arrive at the target price of the said security (ies):

- DCF (Discounted Cash Flow)

Time Horizon

- Dec - 2016

Risk

- Changes in State Bank of Pakistan Policy Rate
- Changes in country (Pakistan) macro-economic environment
- Changes in Company(ies) operating structure
- Change in Exchange Rate (USDPKR)

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